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May 3, 2007

BY HAND

Ms. Karen Nickerson
Secretary
Public Service Commission
861 Silver Lake Blvd.
Cannon Building, Suite 100
Dover, DE 19904

Re: In the Matter of Integrated Resource Planning for the Provision of Standard Offer Supply Service by the Delmarva Power & Light Company Under 26 Del. C. Section 1007(c) & (d): Review of Initial Resource Plan Submitted December 1, 2006 , PSC Docket No 07-20

Dear Ms. Nickerson:

Please find enclosed for filing, the original and ten copies of NRG Energy Inc.'s ("NRG") Comments on the Independent Consultant's Interim Report of Delmarva Power IRP in Relation to RFP in the above-referenced docket.

Sincerely,

Geoffrey A. Sawyer, III (#4754)

GAS/lf

Enclosures

cc: Service List (via E-mail only)

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF INTEGRATED RESOURCE PLANNING FOR THE PROVISION OF STANDARD OFFER SUPPLY SERVICE BY THE DELMARVA POWER & LIGHT COMPANY UNDER 26 DEL. C. SECTION 1007(c) & (d): REVIEW OF INITIAL RESOURCE PLAN SUBMITTED DECEMBER 1, 2006 (OPENED JANUARY 23, 2007)	)	**PSC DOCKET NO. 07-20**

COMMENTS OF NRG ENERGY, INC. ON THE INDEPENDENT CONSULTANT'S INTERIM REPORT ON DELMARVA POWER IRP IN RELATION TO RFP

I. INTRODUCTION

On February 21, 2007, Delmarva Power & Light Company ("Delmarva" or "DP&L") issued a report ("DP&L Report") on its evaluation of bids received in response to its Request for Proposals ("RFP") in Docket No. 06-241. On the same date, the consulting team of New Energy Opportunities, Inc.; La Capra Associates, Inc.; Merrimack Energy Group, Inc. and Edward L. Selgrade, Esq. (together, the "Independent Consultant" or "IC") issued its report (the "IC Report") on Delmarva's RFP evaluation in Docket No. 06-241. NRG Energy, Inc. ("NRG"), a bidder in the subject RFP, issued a set of preliminary comments on the Reports on March 1, 2007. In addition, on April 4, 2007 the Independent Consultant issued its Interim Report on

Delmarva Power IRP in Relation to RFP (the "Interim IRP Report" and together with the IC Report and the DP&L Report, the "Reports"). NRG also submitted a second set of comments on the Reports on April 6, 2007 intended to highlight areas of continued weakness in the evaluation processes that fundamentally call into question the structure and application of those processes and the resultant conclusions about the relative merit of the bids received. Most recently, on May 1, 2007 the IC issued an Addendum to the IRP Interim Report ("Addendum").

Set out herein for consideration by the Delaware Public Service Commission ("PSC" or the "Commission"), the Delaware Office of Management and Budget, the Delaware Energy Office and the Delaware Controller General (collectively, the "State Agencies") are the comments of NRG addressing the Interim IRP Report and the Addendum, and by reference, the RFP evaluation process, the other Reports, the comments of other parties and subsequent discussions.

II. THE INTERIM IRP REPORT'S CONCLUSIONS AND RECOMMENDATIONS

Risk Assessment

The first conclusion and recommendation of the Interim IRP Report is:

> Delmarva did not conduct a risk assessment that would address the potential for retirement of Indian River units 1 and 2 and its consequences if NRG's proposed coal IGCC plant is not built. This is a possibility in light of recent emissions control regulations promulgated by the Delaware Department of Natural Resources and Environmental Control ("DNREC") that would require substantial capital investment in these units. A decision on the bids pursuant to the RFP should await the results of a study by PJM at the Commission staff's request that would address the impact on reliability if these units are retired. If substantial issues are raised, it should then be determined whether selecting one of the bids is a cost-effective means of addressing the associated risks.[1]

[1] Interim IRP Report, p. 3.

NRG wholeheartedly agrees with the substance of this conclusion. Despite NRG's explicit proposal to retire Indian River Units 1 and 2 as part of its IGCC bid, the RFP and IRP proceedings have ignored this possibility until the May 1, 2007 release of the Addendum, which addresses only price impacts of the retirements. The environmental impacts of NRG's bids were evaluated in the RFP without reference to the retirement of Indian River Units 1 and 2, and until the recent release of the Addendum, the supply-demand balance for electric energy, capacity and ancillary services appears to have been evaluated by Delmarva, its consultant ICF International ("ICF") and the IC as though Indian River Units 1 and 2 would continue to operate indefinitely, and without reference to ongoing reliability issues affecting the grid on the Delmarva Peninsula.

The Addendum reports the results of apparently a single new run of ICF's model, incorporating retirement of Indian River Units 1 and 2 on the economics of NRG's 25-year bid (without carbon capture and recovery).[2] The Addendum finds a minimal impact on rates to SOS customers, but does note an increase in market capacity prices. The Addendum considers only price impacts and does not analyze non-price factors. Significantly, the Addendum does not analyze the impact of retirement of Indian River Units 1 and 2 under a scenario in which NRG's IGCC proposal is not constructed, and more importantly the Addendum does not analyze the resulting impact of such retirements on system reliability. When viewed in the context of the full IRP and RFP processes, the Addendum represents only a piecemeal look at an isolated scenario – an approach that fails to satisfy the recommendation in the Interim IRP Report for an informative risk assessment.

The Interim IRP Report is also correct in highlighting the recent emissions control regulations promulgated by DNREC that would require substantial capital investment in Units 1

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2 Addendum, pp. 2-4.

and 2 – potentially beyond the level supported by expected operation of these units. However, in addition, the IC should have considered the impact of expected future regulation of carbon emissions on the continued operation of these units. As part of the RFP evaluation process, the IC has requested that Delmarva's consultant run its proprietary models under a number of scenarios involving different assumed levels of carbon emissions costs. Although consideration of additional scenarios is generally informative, the approach taken in the evaluation process to date fails to reflect actual market expectations and behaviors, and so fails to provide data to the State Agencies that meaningfully enhances analysis and decision-making in this important matter for Delaware and its citizens. As NRG has pointed out in its prior comments,[3] both Delmarva and the IC essentially dismiss NRG's bid involving IGCC with carbon capture and sequestration ("CCS") as too expensive under a low carbon cost base case scenario, and then fail to re-examine the benefits of NRG's CCS bid under a high carbon cost alternative scenario. And in none of the scenario evaluations was the impact of carbon cost considered with respect to the continued operation of existing generation in Delaware and the region, reflecting the certain increases in energy pricing that are to be expected as the market adjusts to reflect the effects of carbon regulation.

Consistent with the IC's observation in its Interim IRP Report, a decision about entering into a power purchase agreement ("PPA") with any of the RFP respondents should be deferred until the impact of retirements of existing units is evaluated and the Parties to this docket are

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3 *See generally*, NRG's March 1, 2007 Preliminary Comments on the DP&L Report and the IC Report, at page 22; *See also*, March 16, 2007 letter from Caroline Angoorly to Mark Finfrock and Barry J. Sheingold (Distributed to the Service List in PSC Docket No. 07-20 via E-mail on March 16, 2007, and attached hereto as Exhibit A).

given the opportunity to comment on such evaluation (with full transparency as to all relevant input assumptions and evaluation mechanics).

NRG observes that an April 27, 2007 Generator Interconnection Study, prepared for the Commission by PowerWorld Corporation ("PowerWorld Study") did analyze system reliability of the three bids and a hybrid proposal independently identified by Commission staff, and found that retirement of Indian River Units 1 and 2, coupled with an outage of Unit 4 would likely result in voltage support problems on the Milford 230 kV bus.[4] The PowerWorld Study noted that, under such conditions, the existing static VAR compensator at the Indian River site was "maxed out" at its capacity of 150 MVAR[5] leading the authors to conclude that the proposed IGCC plant would "be a great benefit to voltage reliability in the region."[6] The Commission and the other State Agencies should note that, according to the PowerWorld Study, one or more replacement VAR sources may be required for regional voltage support in the event that Indian River Units 1 and 2 are retired and the proposed IGCC plant is not constructed. In addition, the continued operation of older capacity for reliability purposes under cost-based "reliability must run" agreements can impose economic burdens on Delmarva's ratepayers that would be avoided in repowering existing assets like the older Indian River units with innovative baseload generation like IGCC.

The key objective of an Integrated Resource Plan is that it is in fact integrated – that is, that it considers all likely scenarios and contingencies and evaluates all available options for providing service to the public under such scenarios and contingencies in the most efficient manner in those circumstances. The specification of scenarios that do not include retirement of

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4 PowerWorld Study, p. 1.

5 *Id.*

6 *Id.*, p. 21.

units as proposed in a bid submitted responsive to the RFP comprises a failure to consider all such likely scenarios. The piecemeal approach of the Addendum in running a single look at the price impacts of selected unit retirements without considering the possibility of reliability issues and reliability-driven capital costs does not remedy the larger failure. When this failure is coupled with selective (*i.e.*, not integrated) evaluation of such factors as carbon costs against certain generator mix scenarios but not others, we respectfully submit that the Delmarva IRP has to date failed a basic test.

Assessment of Need for Additional Generation

The second conclusion and recommendation of the Interim IRP Report is:

> Delmarva should be responsible for assessing the need for additional generating capacity on the Delmarva peninsula from a reliability and economic standpoint (based on "bottom up" evaluation and monitoring) and for conducting a risk assessment as part of its IRP obligations. Consistent with the foregoing, the Company should be directed to prepare (and update as needed) a contingency plan to obtain required generation either through a power purchase agreement or through self-build generation as part of its IRP obligation in order to hedge locational capacity and congestion risk. This might entail installation of a combustion turbine or natural gas-fired combined cycle plant to mitigate increases in locational capacity prices and/or congestion at a favorable site, subject to Commission approval.[7]

NRG supports the first part of this conclusion but takes exception in the strongest terms to the second part of the IC's conclusion and recommendation cited above. NRG agrees that Delmarva should be responsible for assessing the need for additional generating capacity on the Delmarva Peninsula from a reliability and economic standpoint. NRG notes that, while other entities perform reliability studies of the regional power network, the economic assessment of need for additional generating capacity is not addressed elsewhere. Moreover, a proper

7 Interim IRP Report, p. 39.

evaluation should include a risk assessment that considers possible outcomes. This must be conducted through consideration of individual generating units (both existing and proposed), transmission lines and demand side initiatives, *e.g.*, a "bottom up" evaluation. Reliance upon regional mathematical models that assume markets always clear (*e.g.*, a "top down" analysis) runs the real risk of producing a false sense of security.

After performing the necessary studies, we recommend that Delmarva continue with the IRP process and develop an integrated plan for ensuring reliable service to the public at the lowest reasonable cost, taking into account all relevant issues – and reflecting a real balancing of energy and environmental policy objectives. This approach differs from the IC recommendation. The IC appears to assume that the RFP evaluation and IRP process have failed irretrievably, and that Delmarva can now only prepare a "contingency plan" to acquire needed generation in order to hedge risks that the IC seemingly believes cannot be avoided. By its very nature a contingency plan will not involve long-term planning under an integrated evaluation of possible outcomes: it will be more focused on short-term, quick fixes that can be implemented in the face of an emergency.

NRG finds it disturbing that the IC appears to support a contingency plan that implies a return to the "self-build" paradigm of monopolistic, vertically integrated utilities and cost-of-service rates, coupled with the quick installation of gas-fired simple cycle combustion turbines or a gas-fired combined cycle plant. This recommended course of action must be rejected by the State Agencies as completely at odds with the stated goals of the Electric Utility Retail Customer Supply Act of 2006 ("EURCSA")[8] and for going beyond the IC's scope in giving the impression

[8] 26 Del. C. § 1007. As NRG has mentioned previously, the Act expressed concerns with excessive reliance on purchases of electric power from wholesale markets or natural gas-fired generators,

that this process provides an opportunity to reexamine settled issues around electricity industry deregulation in Delaware.

PPAs with Regional Generators

The third conclusion and recommendation of the Interim IRP Report is:

> Delmarva's IRP is deficient in that the Company has failed to seriously evaluate long-term power purchase contract opportunities with regional power generators. The purchase of energy and Renewable Energy Credits from developers of regional onshore wind generation projects appears to provide the potential for cost-effective hedging of systemic energy and RPS compliance risks by Delmarva for its SOS RCSI customers.

NRG has mixed views on this conclusion and recommendation, in part because of its generality and inclusion of such a wide range of possibilities, some of which may be beneficial while others would likely be problematic. That Delmarva did not seriously consider entering into long-term PPAs with regional power generators is factually accurate. Throughout the RFP and IRP processes, Delmarva has exhibited a fundamental reluctance to consider long-term PPAs with any generators, despite the focus of both the EURCSA and RFP on encouraging new generation within the state of Delaware that meets the clear criteria specified including innovative baseload, fuel diversity, environmental benefits and use of existing infrastructure. Those were the terms dictated by the Legislature and under which all of the respondents expended considerable time and dollars in preparing and submitting their bids.[9] After all of the bids have been submitted and with the evaluation process well underway, it seems inappropriate

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both of which represent the core features of the highest-ranking bid by Conectiv. Moreover, the Act specifically notes the importance of innovative technology and the possible use of IGCC for the clean combustion of coal – both offered by NRG's proposal. See 26 Del. C. §1007(b)(1) b. 1 and §1007(d)(1) a. 1.

[9] 26 Del. C. §1007(d) ("...The application shall contain a proposed form of request for proposals ("RFP") for the construction of new generation resources **within Delaware** for the purpose of serving its customers taking standard offer service...")(emphasis added).

for the IC to come back with new proposals for Delmarva to consider (for example, a long-term PPA with a new or existing wind energy project located in the mountains of western Pennsylvania[10]), rather than focusing on steps to be taken to ensure a valid conclusion to the RFP process in which so many parties have invested so much.

NRG questions the appropriateness of reopening the process to a new range of possible suppliers at this late stage without unjustifiably disadvantaging the existing bidders through such material "changing of the rules". The IC's reliance on "telephone surveys" (of indeterminate scope and participation and from which one simply cannot draw meaningful conclusions as to representative sample sizes and results) and "anecdotal information"[11] as the basis of its recommendations should raise legitimate questions for the Commission and the other State Agencies about the reliability of the corresponding conclusions. NRG notes that any evaluation of new renewable energy projects located in distant regions will necessarily involve difficult and costly analyses of such matters as the available wind resource, the developer's site control (under the laws of other states and particular localities), the local environmental impact, socio-economic impacts and transmission limitations under a range of possible combinations of demand growth and network upgrades. For example, the inherent complexity of evaluating the attributes of a planned wind farm on a mountain ridge near Pittsburgh under even the existing RFP evaluation protocols would be daunting. Attempting to make a dozen such evaluations of competing projects, while at the same time fixing the problems identified thus far with the evaluation protocols, and dealing with a PPA counterparty (Delmarva) that has evidenced a reluctance to

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10 Interim IRP Report, p. 34.

11 *Id.*, pp. 34-35.

enter into any long-term PPA looks like a recipe for further delay – with the "contingency plan" and the "self-build option" of combustion turbines waiting in the wings.

Based on the difficulties encountered so far in the IRP and RFP processes, our hope is that the Commission and the other State Agencies remain on guard against encouragement to expand these processes to an unmanageable level.

Ranking of Bids

The fourth conclusion and recommendation of the Interim IRP Report is:

> Based on a risk analysis and assessment of additional scenarios as well as available market information, we do not recommend a change in our ranking of bids or recommend that Delmarva be directed to sign a contract with any of the bidders at this time in the absence of a market test.

NRG's fundamental concerns with the ranking of bids have been described in its prior filings and need not be repeated in detail here.[12] In brief, NRG believes the award of points for price of bids suffers from an unexplained "black box" method of assigning levelized prices to the bids, coupled with an arbitrary exclusion of selected bids, unjustified truncation of the range of considered bids, and an arbitrary award of points. These factors – individually and in combination – produce conclusions that form an unreliable basis for assessment by the State Agencies of which proposal most effectively responds to the energy and environmental policy needs of the State. For example, with only three bidders participating in the RFP, the justification for excluding NRG's CCS bid as an "outlier" is untenable. There were not enough bids for a clearly defined price distribution to be apparent. The exclusion of NRG's CCS bid under the assumed low carbon cost scenario is arbitrary; its continued exclusion under the high

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[12] *See*, NRG's Preliminary and Supplemental Comments on the DP&L Report and IC Report, filed in PSC Docket No. 06-241 on March 1, 2007 and April 6, 2007 respectively.

carbon cost scenario (precisely when implementation of solutions like CCS will be encouraged by the market and regulation) is inexplicable. The $15 per MWh truncation frankly appears to be based on guesswork and nothing more.

The rest of the evaluation process suffers from similar flaws. The analysis of so-called price stability in truth measured only the response of the bids to a limited set of *ad hoc* assumptions. The analysis did not evaluate or consider the expected *distribution* of natural gas prices, coal prices, carbon emission prices, load growth or general inflation over time: only a few point estimates were evaluated, and each was weighted equally – not weighted, as should have been done, according to its expected likelihood of occurring. The results are not meaningful or determinative – and should not be regarded as such by the State Agencies or other parties. In these circumstances, the question becomes what should the next step be to meaningfully progress the RFP and IRP processes and ensure that the enormous efforts and funds that have been expended by all participants to date are resources well spent towards the critical goal of securing Delaware's energy future.

"Market Test" and Renewable-Only Bidding

The IC recommends a "market test," as explained in the Interim IRP Report's last conclusion and recommendation:

> We recommend that Delmarva be directed to conduct a market test . . . to explore one of the following two alternatives:
>
> a. A short-form version of an all-source RFP for long-term power supplies that would not be limited to new generation within Delaware. The bidders in the RFP process would be allowed to keep their bids in place or rebid. This will allow the Company to assess the economic and other benefits of regional generators or power supplies and compare these other alternatives to the bid projects; or
>
> b. A renewables-only RFP for energy, capacity and RECs as a means to

> hedge energy and RPS compliance risk if the State Agencies determine that one of Bluewater's bids is the most attractive pursuant to the current RFP. Regional renewable generators would be entitled to participate. Bluewater would be allowed to keep its bids in place or rebid.

Given the issues encountered with the RFP process so far, NRG has justifiable concerns with expanding the process effectively to constitute a new solicitation. The public interest would not be served by repeating the same flawed evaluation with a new set of bids. Only if the flaws already identified in the bid evaluation process are fixed – truly fixed, and not simply papered over by the addition of a few more scenarios – will the suggested market test yield a meaningful result. And any market test process should be structured to be fully transparent and not follow the approach of the prior bid evaluations. The IC must retain its own, independent market and fundamentals modeling capability, in order to provide an independent check on the "black box" models employed by Delmarva and ICF. And, all bidders in the market test must be informed as to the details of how their bids will be evaluated.

If the bid evaluation process can be fixed, NRG may be supportive of a limited market test in the form of an expanded second round of bidding. However, as discussed above, NRG is concerned about the practical aspects of opening the market test bidding to a region the size of PJM-Classic. NRG believes such a process would likely overwhelm the evaluation process and would lead to delay and, possibly, compromise electric reliability for Delmarva. Accordingly, NRG advocates that any second round market test be "all source" and limited to generation assets located within the Delmarva Peninsula. This would expand the scope of the market region to include the eastern shore of Maryland and Virginia, while at the same time avoiding questions of transmission congestion outside of the Peninsula.

The second half of the Interim IRP Report's final recommendation was for a second round renewables-only bid. NRG absolutely supports renewable energy. NRG believes that Delaware – and the entirety of the United States – needs to consider all available types of energy, including renewables, as part of comprehensive and integrated energy solutions that take into account all key policy drivers in a balanced fashion. NRG notes that the bid evaluation process already explicitly considers non-price factors, including environmental factors that favor renewable energy projects, and that Delaware's renewable portfolio standard already amounts to a set-aside program for renewable energy.[13] Simply stated, NRG sees no compelling public interest reason to establish a set-aside bidding program for renewable energy projects outside of the renewable portfolio standard already written into the law. If renewable energy projects offer demonstrable advantages, they should be able to compete against any source of energy. Eliminating a set-aside bid will be fairer, simpler administratively and consistent with the process defined by EURCSA.

III. OTHER CONCLUSIONS OF THE INTERIM IRP REPORT

In addition to the major conclusions and recommendations addressed above, the Interim IRP Report drew a number of conclusions that served to support its larger recommendations.

MAPP

NRG agrees with the IC's assessment of the Mid-Atlantic Power Pathway ("MAPP") transmission project. Although Delmarva has touted the MAPP project as potentially opening the Delmarva Peninsula to lower cost sources of power from the western regions of PJM, the Interim IRP Report calls the economic benefits of MAPP into question.[14]

13 26 Del. C. § 351 et seq.
14 Interim IRP Report, pp. 28-30.

DSM

In its Interim IRP Report, the IC rightly points out that DSM alone will be insufficient to meet DP&L's needs.[15] As a result, Delmarva must still deal with managing the procurement of power supplies for its SOS customers while also managing long-term power market price risks. NRG supports the IC's position that DSM alone will not be sufficient for meeting DP&L's needs (although it should still be pursued as part of a comprehensive energy policy) and that DP&L should independently evaluate the need for new generation capacity in Delaware.

Onshore Wind in Delaware

NRG also supports the IC's conclusion in its Interim IRP Report concerning the meager wind regime for on-shore Delaware sites.[16] Delmarva had been projecting development of approximately 30 MW of onshore wind projects as part of its IRP. The IC concludes that this is unrealistic, although the impact will be negligible on the State's electricity supply-demand balance and on electricity prices.

IV. CONCLUSION

The Interim IRP Report points out several fundamental flaws in Delmarva's IRP which in turn reveal the same flaws in the RFP evaluation process – both of which have a profound impact on the May 8, 2007 decision deadline set by the State Agencies in PSC Docket No. 06-241. The same fundamental flaws are reflected in Commission Staff's recently released Review and Recommendations on Generation Proposals in PSC Docket No. 06-241.[17] Therefore, it would be irresponsible of the State Agencies at a minimum not to heed the recommendations of the IC's

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15 *Id.*, p. 16.

16 *Id.*, pp. 26-27.

17 Staff's report and recommendation was released in the afternoon of May 2, 2007, and therefore these Comments do not thoroughly address the numerous issues that exist with Staff's analysis and recommendation regarding the three bids and the ultimate path forward.

Interim IRP Report and the PowerWorld Study[18] and require Delmarva to undertake a comprehensive risk assessment of electric reliability and economic impacts, address the need for new sources of generating capacity on the Delmarva Peninsula and consider the potential impacts of retirement of Indian River Units 1 and 2. In keeping with the IC's recommendations though, this risk assessment must be based on reasoned decision-making through a fully transparent process. Only then can the State Agencies truly determine whether Delmarva has met the specific criteria outlined in EURCSA – and in turn, then make a reasoned decision on the bids submitted in the RFP consistent with the actual market value and other benefits of the proposals, and the probability that those projects as proposed are viable and will be implemented.

In the midst of the zealous advocacy by all of the parties to this and the RFP proceeding, the Commission and the other State Agencies continuing focus on the overarching requirements and limitations of EURCSA in the IRP and RFP processes is critical. EURCSA does not contemplate a return to a Delmarva "self-build" scenario, a generation addition strategy based on doing nothing and relying on gas-fired combustion turbines as a "contingency plan", nor does EURCSA contemplate a PJM-Classic-wide RFP limited only to renewable energy sources. Further, the Commission and the other State Agencies ought not accept politically attractive but otherwise unsound strategies for meeting the electricity requirements of Delaware. Avoiding difficult decisions about new in-state generation by creating a hybrid RFP proposal , or relying upon hypothetical onshore wind projects, the MAPP transmission project, distant renewable

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18 PowerWorld Study at Page 40, where PowerWorld notes that "the only way to know for sure how the new generation alternatives would be impacted by the contingency violations form the market point of view would be to perform a security constrained optimal power flow analysis on the PJM system (including DP&L)."

energy projects, DSM and conservation might please certain constituencies, but would satisfy neither the requirement of reasoned decision-making nor the explicit requirements of EURCSA.

Finally, at a minimum, NRG asks that the well documented flaws in the RFP bid evaluation process be fixed before any type of second round bidding is seriously contemplated. As the evaluation process was demonstrably defective, there would be no benefit to the public – and there might be substantial harm – from soliciting new bids for evaluation under the existing evaluation approach. And because the ranking approach was flawed, there is no justification at this time for selective negotiations with any of the bidders.

Respectfully submitted,

NRG ENERGY, INC.

by: Caroline G. Angoorly
Senior Vice President, Northeast

May 3, 2007

Exhibit A

NRG

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March 16, 2007

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Dear Messrs. Finfrock and Sheingold:

We are writing in support of the revised model runs requested by the Independent Consultant (the "**IC**") in Mr. Sheingold's letter dated March 14, 2007. In NRG's preliminary comments, filed March 1, 2007, we pointed to fundamental flaws in the analysis underpinning the Delmarva and IC Reports and provided detailed critiques of the methodological approach employed by Delmarva and the IC. We also raised overarching concerns about the lack of transparency in the process to date. While the IC's March 14 Supplemental RFP Evaluation request to Delmarva represents a step in the right direction, the methodological changes still suffer from substantial limitations.

To help remedy these flaws and thus strengthen the RFP process as a whole, NRG recommends that two discrete changes be incorporated into the new runs. First, the second scenario – the "Capacity/Transmission Limits Scenario" – should incorporate ICF's high gas price scenario as opposed to using the ICF reference gas price assumptions. Second, the new model runs should include CCS with NRG's bid under the high carbon cost sensitivity analysis in the price stability analysis. The reasons for these changes are described below.

All of the IC's new scenarios incorporate the IC's projections of coal prices, which are much lower than the ICF projections, and gas transportation costs, which are higher than the ICF projections. NRG has advocated both of these changes, based on its own view of the market. Each of the model runs also incorporates more modest, and NRG believes, more reasonable, conservation results in New Jersey. Additionally, the second scenario incorporates several new input assumptions, including: no nuclear units in PJM Classic, no MAPP and AEP transmission lines, and retirement of units (units currently that have applied to PJM for retirement and oil/gas steam units and combustion turbines under 200 MW when they have reached a life of 60 years). With respect to gas prices, however, the IC proposes to continue the use of ICF's reference case. NRG questions the internal consistency of such assumptions. A scenario with limited transmission capacity linking the Delmarva zone with coal-fired capacity to the west, multiple retirements of older, existing generators, no new nuclear units and no onshore wind projects in Delaware would require that loads be served by increasing reliance on gas-fired generation. Accordingly, NRG recommends that the ICF high gas price case be used. If so modified, the IC's scenario would reflect a more consistent macroscopic view.

NRG has consistently raised objections to the "price stability" analysis. In its March 14 letter, the IC suggests re-running the price stability analysis with the coal price projections and gas transportation costs projections used consistently. This change would marginally reduce the spurious increase in standard deviations resulting from the use of a single run with the lower coal prices – a point that NRG has made in its preliminary comments.

However, under the IC's revised approach, the new price stability runs are limited only to the "best of each bid" – which means, only NRG's IGCC *without* CCS bid. NRG has proposed a CCS option that would materially reduce carbon dioxide emissions from its project, but neither Delmarva nor the IC considered this option in the price stability analysis – and the IC does not propose to consider it now. In the real world, CCS would be installed if carbon dioxide emission allowances prove to be costly. It simply makes no sense to model a CCS-capable technology as though the CCS option was independent of allowance costs, but this is precisely what is being done. NRG submits that the IC should instead ask for "IGCC without CCS" for the low carbon cost scenario, and "IGCC with CCS" for the high carbon cost scenario. This approach more accurately reflects the choices that are likely to be made, rather than arbitrary modeling assumptions, and should more accurately demonstrate the long-run "price stability" of a coal-fueled IGCC plant.

We request that these additional changes be made in any subsequent runs of the model and that the IC's supplemental report reflect the results of such runs.

Sincerely,

Caroline Angoorly

Caroline Angoorly

CERTIFICATE OF SERVICE

I, Geoffrey A. Sawyer, III, Esquire, do hereby certify that true and correct copies of the foregoing **COMMENTS OF NRG ENERGY, INC. ON THE INDEPENDENT CONSULTANT'S INTERIM REPORT ON DELMARVA POWER IRP IN RELATION TO RFP** were caused to be served on May 3, 2007 upon the following individuals by E-mail:

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(Original and Ten Copies Also Served by Hand)

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